

**BILL #** SCR 1024

**SPONSOR:** Gould

**PREPARED BY:** Hans Olofsson

**TITLE:** property tax levy rollback

**STATUS:** As Introduced

## FISCAL ANALYSIS

### Description

In tax year (TY) 2009, SCR 1024 would roll back a taxing entity's property tax levy to either the actual amount levied in TY 2005 or the average of the amounts levied between TY 2005 and TY 2008. The "levy" represents the taxing entity's total level of property tax collections. To qualify for the average levy, the taxing entity must have received a two-thirds majority vote at an election held before 2009 for a levy limit override, new non-ad valorem tax, special assessment, or new bonded indebtedness. If the taxing entity did not meet the super-majority requirement, it would be required to levy the same amount in TY 2009 as it levied in TY 2005.

The resolution would also affect levy limits. Under the Arizona Constitution, counties, cities, and community college districts are allowed to increase their annual levies by 2% plus tax revenues from new construction. If approved by voters in the 2008 general election, this resolution would expand the 2% levy limit provision to include school districts. Beginning in TY 2010, the annual increase in the amounts levied by taxing entities, including school districts, would be limited to the lesser of the Phoenix-Mesa Consumer Price Index (CPI) or 2%.

Provided that certain requirements are met beginning November 5, 2008, SCR 1024 would allow for a taxing entity's levy limit to be either increased or decreased.

### Estimated Impact

Beginning in TY 2009, the rollback in property taxes levied by school districts would increase the state's K-12 education formula cost. Based on aggregate tax levy data reported in the Arizona Tax Research Association's (ATRA) *2007 Property Tax Rates & Assessed Values* publication, it is estimated that SCR 1024 could increase Basic State Aid costs by at least \$300 million beginning in FY 2010. To produce a more precise estimate, it would be necessary to conduct a thorough analysis of historical tax levy data for each of the state's more than 220 school districts. Such an analysis, however, cannot be completed within the normal two-week response time for a fiscal note. For this reason, we will continue our efforts to refine our estimates after the publication of this note.

Beyond the rollback in property tax levies, the new 2% levy limit on school districts would limit future growth in local property taxes. As a result, the 2% levy would further increase Basic State Aid costs.

While the resolution will result in lower property tax levies, it will have no impact on property values. Thus, the combination of unchanged property values and reduced levies under SCR 1024 will result in lower property tax rates, which will reduce the cost of the state's 1% cap program. Under the Arizona Constitution, the state caps a homeowner's primary property tax bill to 1% of the parcel's limited value. Any amount in excess of 1% is paid by the state in the form of additional state aid to school districts. Lower property tax levies will result in fewer homeowners qualifying for this program. The FY 2008 cost for the 1% cap program is estimated to be about \$7 million. Any 1% cap savings would offset the \$300 million cost discussed above.

### Analysis

According to ATRA's *2007 Property Tax Rates & Assessed Values* publication, school districts will levy primary property taxes in the amount of \$2.24 billion in FY 2008. The average amount levied between FY 2004 and FY 2007 is \$1.91 billion.

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Based on historical trend, it is projected that primary school tax levies would grow to \$2.50 billion in FY 2010 under current law. The average levy between FY 2006 and FY 2009 is estimated to be \$2.15 billion. Thus, based on aggregate data, it is estimated that SCR 1024 could reduce total school tax levies by about \$350 million in FY 2010. (Note that due to the overlap between tax year and fiscal year, the property tax bill issued for a particular tax year is always paid in the following fiscal year. Thus, a reduction in TY 2009 property taxes will affect FY 2010 collections, etc.)

Of the total tax revenue loss of \$350 million, an estimated \$300 million would be attributable to the qualifying levy, which represents the local share of the K-12 funding formula. Under this formula, the state is required to offset any loss of the local share of school funding by a commensurate increase in Basic State Aid. For this reason, it is estimated that General Fund costs could increase by at least \$300 million beginning in FY 2010.

A district-by-district analysis may reveal that a number of school districts would be required to levy the same amount in FY 2010 as in FY 2006. For example, any district that passed a bond election in 2008 without a two-thirds majority vote would not qualify for the average amount levied between FY 2006 and FY 2009. Instead, such districts' FY 2010 levies would be limited to the amounts levied in FY 2006, as noted earlier in this fiscal note. For this reason, the \$300 million Basic State Aid cost estimate above may understate the true cost of the proposal.

The levy rollback under SCR 1024 will result in lower local property tax rates, which may reduce the cost of the state's 1% cap program. The Arizona Constitution limits combined primary property taxes to 1% of an owner-occupied residential parcel's limited value. For example, if a homeowner's parcel has a limited value of \$200,000, their total primary tax bill would not be allowed to exceed \$2,000. Thus, if this property owner faces a combined primary property tax rate of \$10.67 per \$100 net assessed valuation (NAV), the total tax liability would be \$2,134, of which \$2,000 would be paid by the homeowner and the remaining \$134 paid by the state. (NAV is obtained by multiplying a parcel's limited valued by its assessment ratio, which is 10% for residential property. Tax liability is derived by dividing a parcel's NAV by 100 and then multiplying the resulting number by the rate.)

Since SCR 1024 would result in lower tax rates than under current law, it is possible that the cost of the 1% cap program would decrease. For example, if primary property taxes would decline by 20% as a result of a levy rollback, the homeowner's tax bill in the example above would be reduced from \$2,000 to \$1,707 whereas the state's cost would decrease from \$134 to \$0. The example suggests that SCR 1024 would reduce the number of parcels qualifying for the 1% cap program. The FY 2008 cost of this program is an estimated \$7 million. Under the assumption that the cost of the program will remain the same in FY 2010 as in FY 2008, the state's cost could be reduced by as much as \$7 million.

Beginning in FY 2011, the new 2% levy limit applied to school districts could have the effect of raising the cost for Basic State Aid relative to current law. This is because unlike TNT for equalization assistance, levy limits are calculated for each individual school district. Stated differently, under TNT, the same QTR calculation applies to all the state's more than 220 school districts. This means that in fast-growing districts, the local share of the funding formula is higher than it would have been if the rate were determined on a district-by-district basis. For these districts, the cost of Basic State Aid is smaller than it otherwise would have been. However, to the extent that the levy limit calculation for individual districts yields a lower rate than what is generated under TNT, the state cost of Basic State Aid would increase.

### **Local Government Impact**

This bill would result in property tax losses for local governments.